

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0579-01  
Bill No.: HB 77  
Subject: Business and Commerce; Corporations; Taxation and Revenue - Income; Tax Credits  
Type: Original  
Date: January 26, 2015

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Bill Summary: This proposal would make certain small businesses eligible to claim any state tax credit, deduction, and exemption from tax that specified corporations are allowed to claim.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
General Revenue	(\$123,604) to (Could exceed \$10,123,604)	(\$73,481) to (Could exceed \$10,073,481)	(\$74,247) to (Could exceed \$10,074,247)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$123,604) to (Could exceed \$10,123,604)</b>	<b>(\$73,481) to (Could exceed \$10,073,481)</b>	<b>(\$74,247) to (Could exceed \$10,074,247)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	2 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 135.1624, RSMo. - Small business tax benefits:

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume the proposed legislation would not result in any additional costs or savings to their organization. BAP officials also assume this proposal would reduce Total State Revenues, and could have an impact on the calculation required by Article X, Section 18(e) of the state constitution.

BAP officials noted this proposal would allow any small business with an adjusted gross income less than \$500,000 to claim any state tax preference provided to any corporation, and assume the proposal could reduce Total State Revenues by an unknown amount which could exceed \$10 million. BAP officials assume the proposal could impact economic activity, but could not estimate the potential for induced revenues.

Officials from the **Department of Revenue (DOR)** stated this proposal would make the tax credits, deductions, and exemptions currently available to corporations available to certain small businesses.

#### Fiscal impact

DOR officials assume the expansion of tax credit programs would create a negative impact on Total State Revenue of more than \$10 million annually.

**Oversight** assumes this proposal could increase the utilization of tax credits, deductions, and tax exemptions by small businesses. Oversight also assumes the small business claiming the benefits would have to meet the general requirements for the various programs; therefore, the actual increase in use of tax benefits and resulting revenue reduction is unknown. For fiscal note purposes, Oversight will indicate an impact from \$0 (no increase in the use of business tax benefits) to more than \$10 million per year for the General Revenue Fund.

ASSUMPTION (continued)

Administrative impact

DOR officials assume Collections and Tax Assistance would require two additional Tax Collection Technicians I for additional contacts on the delinquent and non-delinquent tax lines, and noted each technician would require CARES equipment and licenses.

The DOR response for the two additional employees with related benefits, equipment, and expense totaled \$81,729 for FY 2016, \$83,264 for FY 2017, and \$84,130 for FY 2018.

**Oversight** assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

IT cost

DOR officials provided an estimate of the IT cost to implement this provision of \$75,573 based on 1,008 hours of contract programming at \$75 per hour to make changes to DOR systems.

**Oversight** notes the DOR estimate of IT cost to implement this proposal was based on the current state contract rate for IT consulting services. DOR officials told us OA-ITSD (DOR) had informed them employees would not be available in FY 2016 for projects required to implement new legislation and contractors would be required.

ASSUMPTION (continued)

**Oversight** assumes implementing new legislation on a yearly basis is part of the core responsibilities included in the budget for OA-ITSD (DOR), and has calculated the estimated number of hours available for programming work and the average cost of salary plus benefits for OA-ITSD (DOR) programmers. Oversight notes the estimated hours to implement this proposal would represent approximately  $(1,008 \text{ hours} / 1,744 \text{ hours}) = 58\%$  of one programmer's available time for a year; the cost to implement this proposal with an employee would be approximately  $(1,008 \times \$50) = \$50,400$ .

For fiscal note purposes, Oversight will assume OA-ITSD (DOR) could implement this proposal with employees rather than contractors; if this proposal would create an unanticipated additional workload or if multiple proposals are implemented which would require more staffing than anticipated, OA-ITSD (DOR) could request resources through the budget process.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Economic Development - Division of Business and Community Services (DED)** assume this proposal would have no fiscal impact to their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
<b>GENERAL REVENUE FUND</b>			
Cost - Department of Revenue			
Section 135.1624			
Salaries	(\$39,400)	(\$47,280)	(\$47,753)
Benefits	(\$20,096)	(\$24,115)	(\$24,356)
Expense and equipment	(\$13,708)	(\$2,086)	(\$2,138)
IT cost	<u>(\$50,400)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total cost</u>	(\$123,604)	(\$73,481)	(\$74,247)
FTE change - DOR	2 FTE	2 FTE	2 FTE
Revenue reduction - DOR			
Small business tax benefits	\$0 to (More than	\$0 to (More than	\$0 to (More than
Section 135.1624	<u>\$10,000,000)</u>	<u>\$10,000,000)</u>	<u>\$10,000,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
	<b>(\$123,604) to (Could exceed <u>\$10,123,604)</u></b>	<b>(\$73,481) to (Could exceed <u>\$10,073,481)</u></b>	<b>(\$74,247) to (Could exceed <u>\$10,074,247)</u></b>
Estimated net FTE effect on General Revenue Fund	2 FTE	2 FTE	2 FTE
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which qualify for additional tax credits, deductions or exemptions.

### FISCAL DESCRIPTION

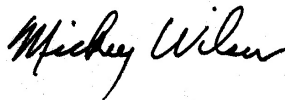
This proposal would make a Missouri small business with no more than \$500,000 in Missouri adjusted gross income eligible to claim any state tax credit, tax deduction, and exemption from tax allowed to be claimed by a corporation in direct proportion to the average annual Missouri adjusted gross income of corporations reported in each tax year divided by three.

The provisions of the proposal would expire on December 31, six years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Office of the Secretary of State  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Department of Economic Development  
Department of Insurance, Financial Institutions, and Professional Registration  
Department of Revenue



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January 26, 2015

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January 26, 2015